Item 6.1.1: ERCOT Staff Preliminary Response to IMM 2024 State of the Market Report

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Overview

- **Purpose**

  This presentation highlights ERCOT's preliminary comments on the IMM 2024 State of the Markets report.

- **Voting Items / Requests**

  This is an informational presentation.

- **Key Takeaways**
  - ERCOT is in alignment with IMM comments on several items.
  - ERCOT has already addressed certain IMM comments.
  - ERCOT disagrees with certain IMM comments.
  - ERCOT staff will present a more thorough and detailed response to the IMM recommendations at the September Board meeting.

Background

- The IMM published its 2024 Annual State of the Markets report on May 30.
- While ERCOT staff has had limited time to review and discuss the report since its posting, we have high level preliminary comments and takeaways to share with the Board.
- ERCOT intends to provide a more thorough and detailed response to the IMM report at the September Board, consistent with our approach in prior years.

Areas of alignment between ERCOT and IMM

The IMM made several comments that ERCOT staff are in alignment with the IMM. These include:

- "ERCOT improved its deployment of the ERCOT Contingency Reserve Service (ECRS) in 2024 which made more energy available to the real-time market"
- RTC implementation will significantly improve efficiency and resolve many IMM concerns particularly those related to ECRS.
- The Ancillary Service Demand Curves (ASDCs) should be reconsidered and improved after RTC implementation.
- "Ensuring resource adequacy is fundamental"
- "A well-functioning market must send clear price signals to incentivize investment"
- Using the Effective Load Carrying Capability (ELCC) in the CDR report was a significant shift as it shows the shift from peak load to net peak load.

Areas of alignment between ERCOT and IMM

The IMM made several comments that ERCOT staff are in alignment with the IMM. These include:

- The adjustment in load forecasts made to the 2025 Long Term Load Forecast "is an improvement over past practices."
- "the CDR functions more as an accounting ledger of formally documented metrics than a predictive model of future system conditions"
- "a substantial increase in transmission investment will be required to maintain reliability" if the revised forecast load materializes.
- Consider probabilistic modeling and dynamic setting of Ancillary Service requirements.
- The benefits and potential implementation of a Multi-Interval Real-Time Market should be reevaluated, particularly with the rise of Energy Storage Resources (ESRs) as a vital component of the supply mix.

- **Key Takeaways**
  - ERCOT staff are in alignment with several of the IMM comments.
  - ERCOT appreciates the IMM's effort to highlight these elements.

Areas that ERCOT has already addressed or proposed

IMM recommended that ERCOT needs to implement a way to deploy ECRS proactively based on forecast need.

- ERCOT already uses a trigger that looks to see if forecasted 10-minute net load ramp cannot be met and deploys ECRS accordingly.
- This trigger was noted in ERCOT Comments to PUCT project 54445, July 2024.

IMM recommended ERCOT needs to maintain released ECRS until operational conditions have been resolved.

- The IMM provided feedback to ERCOT last summer.
- ERCOT modified procedures shortly afterwards to address this item.

Set ECRS duration in Real-Time Co-optimization (RTC) to 1 hour.

- This is consistent with the ERCOT proposed approach in NPRR 1282.
- Their support is noted and helpful.

- **Key Takeaway**
  - Multiple IMM concerns are already addressed or being proposed by ERCOT including ECRS deployment triggers and duration requirements.

Areas of disagreement

ERCOT staff finds that the descriptions of ECRS deployments in 2023 lack updated and quantified drivers of costs.

- Subsequent analysis, developed by independent market analysis experts, quantified the impact of other factors, including weather and outages, as major drivers of pricing outcomes in 2023.
- ERCOT analysis as well as IMM comments note that implementation of RTC will dramatically enhance the efficient deployment of Ancillary Services.

Comparisons of reserve levels in other RTO/ISOs, particularly ISO-NE and NYISO, are misleading.

- ERCOT is substantially larger, particularly with respect to total renewables, than MISO, NYISO and ISO-NE.
  - The more renewables on the system increases the megawatt quantity of forecast error even if the percentage error is the same. Reserve quantities protect the system from load and renewable forecast error.
  - ERCOT has generated more wind than the historic peak load in ISO-NE.
- NYISO and ISO-NE have a ratio of about 9% to10% reserves to peak load consistent with ERCOT.

Areas of disagreement

Set Non-Spin duration in RTC to 1 hour.

- For various reasons, ERCOT staff argues that setting the Non-Spin value to 1 hour is inappropriate, at this time. The current 4-hour requirement is being retained with NPRR 1282.
- These reasons include:
  - The majority of historical deployments of Non-Spin, including deployments on non-scarcity days, last more than one hour with some lasting more than 4 hours. While these deployment durations may change with RTC, that is yet to be determined.
  - In evaluating historical under-forecast error, an issue intended to be mitigated by Non-Spin, ERCOT has observed extreme under-forecasts being sustained for several hours.
  - While there are already planned improvements and other potential tools that may affect energy and duration needs (e.g., RTC, Dispatchable Reliability Reserve Service (DRRS), and a Multi-Interval Real-Time Market), the impacts of those changes on Non-Spin duration is not yet understood.

- **Key Takeaway**
  - ERCOT staff disagree with IMM statements and comments on certain items including descriptions of ECRS, comparisons of reserve levels, and Non-Spin duration.

Next steps

ERCOT staff will continue to evaluate and discuss the IMM recommendations and present a complete and thorough response at the September Board meeting.